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**Medina City Schools  
Communications Office**

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Following is the Public Statement from the Medina City School District Board of Education regarding the release of the special audit report from the Auditor of State's office.

Today, the Auditor of State releases a special audit report that the Medina City School Board of Education requested in early April of this year. The Auditor states in this release that the audit is incomplete. The Audit report is available for the public to read on the Auditor's website at <http://www.auditor.state.oh.us/>.

The Medina Board of Education was presented a preliminary version of this report on September 25th. We were told at that time that the report was incomplete, and must remain confidential. However, the Auditor is allowing for the release of the report today. The Board has been fully cooperative with all aspects of this audit, and has not in any way attempted to delay the release of this report, and has expedited the release of this report in every way possible.

We remind the public that this audit was requested by the Board of Education in order to determine the scope of the transactions that occurred without our authorization. This audit, an "agreed-upon procedures" audit, is narrow in scope. It reviews all expenditures out of the Medina Schools' account with the Medina County Educational Services Center, or ESC, from July, 2005 to March, 2013.

Each year, the Board negotiates a contract with the ESC for the provision of services. Joining forces with other county schools through the ESC allows us to buy services at group rates, lower than we could negotiate alone. The contract we enter into specifies the services we are requesting, the rates at which those services will be paid, and the providers of the services.

The Auditor's office reviewed all of the transactions to flow through that account from July, 2005 through March, 2013. The vast majority of those expenditures were within the annual contract the Board approved. However, there were a significant number of transactions that occurred outside of the contract and without Board authorization or approval.

Here are the significant findings of the audit:

- During the time period of the audit, approximately \$6.9 million was disbursed through the Medina City Schools ESC account
  - Of that amount, nearly \$5.9 million was used for direct ESC services under our contract
- Approximately \$950,000 was disbursed to other vendors on our behalf, but without proper authorization from the Medina Board of Education
  - None of these transactions were posted to the proper fund or account code

- None of these transactions had proper level approval to pay per our District purchasing policy
  - The District had established policies and administrative guidelines relating to purchasing which were not followed by the superintendent, Dr. Randy Stepp
  - Some of these transactions were for travel expenditures of the superintendent, and the superintendent's documentation did not follow District travel policies
- Some of these transactions were not for a proper public purpose
  - Nearly \$4,000 must be repaid to the District by Dr. Stepp for purchases he made with District funds that were not for a proper public purpose
- The Auditor of State notes that the investigation into the educational reimbursement to Dr. Stepp of \$172,011 is incomplete
  - The report states: "As of the date of this report, we are awaiting additional information from the U.S. Department of Education on the details of the \$172,011 amount paid. An addendum to this report will be issued by the Auditor of State once the information is received."
  - As with the other disbursements, the Auditor found that this disbursement was also not specifically authorized or approved by the Board of Education, nor was the Medina City School Board of Education or its treasurer notified of the disbursement
  - The Auditor further notes that, due to incomplete information, it was unable to determine whether all or part of this payment to Dr. Stepp should have been included as income on his W-2 wage statement, , and has referred this matter to the Internal Revenue Service for further investigation
- The Board requested that one item from outside the ESC fund be reviewed as a part of this audit: the December 2007 American Express Credit Card Statements
  - The Auditor found that a purchase with no proper public purpose was made by Dr. Stepp, and issues a finding for recovery against him on this purchase
- Our treasurers, Mr. Wally Gordon (our treasurer during the majority of this time period) and Mr. Jim Hudson (our treasurer since March, 2012) were also found secondarily liable for not catching unauthorized or improper purchases made by Dr. Stepp. In each instance, their liability is below \$200. Mr. William Koran, the Medina County ESC superintendent, and Ms. Michelle McNeely, former Medina County ESC treasurer, were also found secondarily liable for the nearly \$4,000 in findings for recovery against Dr. Stepp.

The Auditor's Office audits the Medina City School District on an annual basis, reviewing all District-controlled expenditures and procedures. The District has not had an audit citation and/or finding for recovery in any prior financial audits within memory. These findings do not reflect any difficulties in our overall accounting procedures. They only refer to the ESC account.

We would like to note that the unauthorized expenditures that occurred with this account will not be legally possible going forward. Our Board first acted to stop all outside-of-contract expenditures with

the ESC in April of this year. More crucially, state law has changed; since the law change this summer, ESCs in the state of Ohio cannot make payments from school-sponsored ESC accounts for outside-of-contract expenditures.

It should also be noted that at the time of the disbursements in question, the ESC was serving as the custodian of our District's funds, and was likewise subject to a high duty of care in accounting for these public funds, under all the same procedures required of other public schools in Ohio. The Auditor's report found, however, that the ESC did not obtain proper District-level authorization on nearly \$950,000 of these purchases. Our Board is most eager to have an explanation as to how this could have occurred and a full examination of the ESC procedures at issue within the regular current audit cycle if not sooner.

The Board is disappointed that the Auditor has not yet been able to obtain full documentation on the educational reimbursement paid to Dr. Stepp through the ESC account, as we know this leaves many of our community's questions unanswered. On that issue, we must await the follow-up report which the State Auditor has assured us will be forthcoming as soon as the necessary information has been obtained. Regardless, however, of when that report occurs, or when the Auditor's work is truly complete, the Board is gratified for the confirmation provided by the State Auditor as to the lack of proper District-level authorization for this expenditure, as most certainly should have occurred.

Our Board is proceeding to take the steps recommended by the State Auditor, a number of which are already in place or in process. For example, at last night's public meeting, we reviewed our mileage reimbursement processes and travel expenditure policies. We are also in the process of reviewing our procedures for educational reimbursements. And, as in the case of any audit which produces findings for recovery, we must carefully review the record to determine whether changes in personnel policies, or individual disciplinary actions, are warranted.

The Medina City Schools Board of Education will be conferring with counsel at a special meeting later this week to discuss the appropriate response of the Board to this audit report.